

Opinion n° HCFP-2020-1
on the first amending budget bill for 2020

17 March 2020

Main conclusions

The High Council highlights that the context of unusually high uncertainty resulting from the health crisis caused by the coronavirus (Covid-19) affects any macroeconomic forecast with great fragility. It notes that the Government's scenario presented in this draft amending budget bill (PLFR) is based on two strong assumptions, namely a confinement of population limited to one month and a rapid return to a normal level of French and foreign demand, which cannot be taken for granted, so that the deterioration of the macroeconomic framework could be more pronounced than forecasted in the PLFR for 2020.

The High Council noted in its opinion on the Budget Bill for 2020 that the public finance path diverged markedly from the one presented in the Public Finance Programming Law of January 2018. The amending budget bill for 2020 assumes that all revenue and expenditure measures have only a temporary impact and therefore do not affect the structural balance. The High Council considers that this assumption will need to be re-examined in its forthcoming opinions.

The High Council considers that the health crisis and its economic and financial consequences are unusual events beyond the control of the Government and therefore fall within the scope of “exceptional circumstances” as referred to in Article 3 of the Treaty on the Stability, Coordination and Governance of Public Finances.

The High Council adopted the following opinion after discussion at its meeting on 17 March 2020.

Introductory remarks

The Government referred to the High Council of Public Finance on 17 March 2020, pursuant to Article 15 of Organic Law No. 2012-1403 of 17 December 2012 on the programming and governance of public finances, the introductory article of the draft amending budget law (PLFR) for 2020 and the macroeconomic forecasts adopted.

The letter of referral requested that the opinion be delivered the same day. The High Council considered that, in view of the exceptional situation in the country as a result of the outbreak of the Covid-19 coronavirus, it had a duty to respond within the requested time frame. This unusual delay did not allow the High Council to conduct hearings with Government and external organizations.

Even beyond these circumstances, the exercise is made exceptionally complicated by the unprecedented degree of uncertainty that characterizes the health situation, its evolution and its social and economic impacts, and by the absence of any relevant historical reference to guide

analysis and forecasting from private or public organizations incorporating decisions, particularly containment decisions, taken in France and in most of its partners.

In these circumstances, this opinion can only provide initial elements of analysis on the growth forecast and the economic and financial framework of the PLFR. It is in its forthcoming opinions that the High Council will be asked to provide further details on its diagnosis of the macroeconomic scenario and the public finance forecasts incorporating the impact of the coronavirus epidemic and the public policy measures taken in order to mitigate its economic impact.

I- Macroeconomic forecasts pour 2020

The Government referral mentions that “*the scenario presented here is based on the assumption that France will apply activity and travel restrictions for an indicative period of one month in total due to the coronavirus epidemic. It is also based on the assumption that the other major economies of the European Union implement measures with similar scope and duration. This forecast is characterised by a high level of uncertainty, due to the impossibility to assess at this stage the duration of the epidemic and the measures needed to contain it. [...] Overall, the negative shock related to the coronavirus epidemic would lead to GDP growth of around -1% in 2020, mainly through lower household consumption and lower demand from China in the euro area. [...] Inflation would fall to +0.6% in 2020, after +1.1% in 2019. [...] In 2020, inflation is expected to decrease mainly as a result of the sharp fall in oil prices*”.

The Government is now forecasting a recession for 2020 (-1.0%), compared with a growth forecast of +1.3% in the initial Finance Act, which would be only the fourth decline in GDP in France since 1950¹.



¹ GDP declined by 1.0% in 1975, 0.6% in 1993 and 2.9% in the great recession of 2009.

This downward revision of the GDP forecast takes into account the economic impact of the health crisis in France, as in many other countries around the world, and in particular the loss of activity for businesses that will not have their entire workforce, for sectors in "non-essential" public places (café-restaurants, tourist and entertainment activities, etc...) and for those that will not have their entire workforce which had to close from 15 March, for transport companies and for those, particularly in industry, which will not have the necessary components for their production, usually coming from countries with an idling economy (China, then Italy in particular).

In addition, activity in France is expected to suffer from a significant decline in domestic demand, due to the closure of some shops and services, lower investment and a fall in intermediate consumption. Exports are also expected to decline, due to the contraction of demand from our partners affected by the epidemic. Conversely, the decline in imports should slightly offset the decline of economic activity.

Both the extent and duration of these activity losses are highly uncertain. Uncertainties relate primarily on the duration and effectiveness of measures to prevent the coronavirus epidemic, both in France and in other countries of the world. An epidemic of this magnitude is exceptional and its economic impacts are therefore very difficult to assess.

The Government's scenario is very close to the one presented on 13 March by the European Commission for the euro area as a whole (a 1.1% drop in GDP compared with a 1.4% increase in the forecast published in February). It is based on two strong assumptions, namely a confinement limited to one month and a rapid return to normal of both French and foreign demand, which cannot be taken for granted.

The High Council highlights that the context of unusually high uncertainty resulting from the health crisis affects any macroeconomic forecast with great fragility. It notes that the Government's scenario presented in this draft amending budget bill (PLFR) is based on two strong assumptions, namely a confinement of population limited to one month and a rapid return to a normal level of French and foreign demand, which cannot be taken for granted, so that the deterioration of the macroeconomic framework could be more pronounced than forecasted in the PLFR for 2020.

II- Public finance scenario for 2020

According to the Government's scenario, *"the forecast of general government balance for 2020 is revised downwards sharply to -3.9% of GDP, against -2.2% expected at the time of the presentation of the budget bill (PLF) for 2020. The structural budget balance would reach -2.2% and the structural adjustment would be 0.0 point (as in the PLF forecast). [...] Compared to the PLF 2020, losses would be recorded on revenue given the deterioration of the growth prospects, while public expenditure would be revised upwards due to the increase in cyclical spending on unemployment and emergency actions taken in response to the Covid-19 crisis [...] The public expenditure ratio would be revised upwards (55.3%² against 53.4% in the PLF 2020) as a result of the €7.1 billion increase of controllable expenditure standard compared to the initial finance law for 2020 (for partial activity – with co-financing from Unedic – and for compensation fund – with co-financing from regions) and the provision of the cost of health*

² Figure excluding *France compétences*. The public expenditure ratio would be 55.6% including *France compétences*, compared to 53.6% in PLF for 2020.

measures in order to cover the purchase of equipment (masks), daily allowances and recognition of individual commitment for the hospital staff. This revision of the public expenditure ratio also echoed the effects of the cyclical deterioration of activity.”

For 2019, the decomposition of the public balance presented in the PLFR, between the cyclical component, the structural balance and one-off and temporary measures, is not modified compared to the PLF 2020. The Government has chosen not to update its public finances forecast since September 2019, pending the finalization of the notification of the deficit for 2019, which should be released on March 26, 2020.

For 2020, the public finances scenario features numerous uncertainties, especially those affecting the forecast of the macroeconomic scenario.

Considering the emergency measures announced by the Government leads to a deterioration of the public finance situation for 2020. The PLFR includes a €7.1 billion increase of the standard controllable expenditure compared to the initial finance law for 2020. The Government considered that the measures announced to deal with the Covid-19 crisis would not have a lasting impact on the public balance and classified these additional expenditures as one-off and temporary measures.

Decomposition of the general government public balance

<i>In points of GDP</i>	Amending budget bill for 2020 (March 2020)			<i>Programming law (Jan. 2018)</i>		
	2018	2019	2020	<i>2018</i>	<i>2019</i>	<i>2020</i>
Nominal Balance	-2,5	-3,1	-3,9	<i>-2,8</i>	<i>-2,9</i>	<i>-1,5</i>
Cyclical component	0,0	0,0	-1,3	<i>-0,4</i>	<i>-0,1</i>	<i>0,1</i>
One-off measures	-0,2	-0,9	-0,4	<i>-0,2</i>	<i>-0,9</i>	<i>0,0</i>
Structural balance	-2,3	-2,2	-2,2	<i>-2,1</i>	<i>-1,9</i>	<i>-1,6</i>
<i>Deviation from the programming law</i>	<i>-0,1</i>	<i>-0,3</i>	<i>-0,5</i>			

Note: Figures being rounded to the nearest tenth, components may not add to the total.

Source: 2020 amending budget bill and 2018 programming law.

The structural budget balance would amount to -2.2% points of GDP in 2020, unchanged from 2019. The forecast of the structural deficit for 2020 in this PLFR does not change compared to the budget bill for 2020. The deterioration of the nominal deficit comes in fact from taking the Covid-19-related measures into consideration as one-off measures, and from the impact of the deterioration in the economic situation on the public balance (the cyclical component stands at -1.3% of GDP against +0.1% of GDP in the PLF for 2020).

The structural balance path in the amending budget bill for 2020 remains the same as in the budget bill for 2020, but deviates markedly from the path presented in the programming law (LPFP) in force (-2.2 points in the PLF for 2020 against -1.6 points in the LPFP), as pointed out by the High Council in its opinion on the budget bill and the social security financing bill for 2020.

This path assumes that revenues from compulsory levies will not fall more than activity (assumption of unitary “elasticity” of revenues to growth). If, as it is usually the case in a recession, revenues from compulsory levies fall more sharply than activity (that is an elasticity of revenues to growth greater than one), the nominal balance, just like the structural balance, would decline by as much. The PLFR also assumes that the postponement announced by the Government on March 16, 2020 of social contributions and tax revenue for dates of payment of March and April will only be temporary and will therefore not affect revenues for the year 2020.

Regarding expenditures, the exceptional measures announced by the Government in order to deal with the health crisis and its economic and social consequences are evaluated by the PLFR at €11.5 billion (€8.5 billion for partial activity, €2 billion for additional health expenditures and a €1 billion for a compensation fund for self-employed workers). Given the time frame for producing the opinion requested by the Government and the limited information provided to it, the High Council is not in a position to assess the degree of realism of the cost estimates submitted by the Government.

The High Council noted in its opinion on the Budget Bill for 2020 that the public finance path diverged markedly from the one presented in the Public Finance Programming Law of January 2018. The amending budget bill for 2020 assumes that all revenue and expenditure measures have only a temporary impact and therefore do not affect the structural balance. The High Council considers that this assumption will need to be re-examined in its forthcoming opinions.

III- Exceptional circumstances

Under the paragraph IV-A of the article 23 of the 2012 organic law on the programming and governance of public finances³, the Government asked the High Council of Public Finance if the exceptional circumstances mentioned in article 3 of the Treaty on Stability, Coordination

³ “The Government may request the High Council of Public Finance to determine whether the conditions mentioned in article 3 of the treaty, signed on March 2, 2012, cited above, for the definition of exceptional circumstances have been met or have ceased to be so.”

and Governance in the Economic and Monetary Union (TSCG) have been met.

Article 3 of the TSCG specifies that “*exceptional circumstances*” refers to the case of an unusual event outside the control of the Contracting Party concerned which has a major impact on the financial position of the general government or to periods of severe economic downturn as set out in the revised Stability and Growth Pact, provided that the temporary deviation of the Contracting Party concerned does not endanger fiscal sustainability in the medium term.”

The High Council considers that the health crisis and its economic and financial consequences are unusual events beyond the control of the Government and therefore fall within the scope of “exceptional circumstances” as referred to in Article 3 of the Treaty on the Stability, Coordination and Governance of Public Finances.

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This opinion has been published in the *Official Journal* of the French Republic and attached to the amending budget bill for 2020.

In Paris, the 17 March 2020.

For the High Council of public finance,
The Doyenne of Presidents of the Court of Auditors,
First Acting President of the Court of Auditors,
Acting President of the High Council of Public Finance



Sophie MOATI

Annexe : Article liminaire du premier PLFR pour 2020

Prévision de solde structurel et de solde effectif de l'ensemble des administrations publiques pour l'année 2020

La prévision de solde structurel et de solde effectif de l'ensemble des administrations publiques pour 2020 s'établit comme suit :

En points de produit intérieur brut (PIB)	Prévision 2019*	Prévision 2020
Solde structurel (1)	-2,2	-2,2
Solde conjoncturel (2)	0,0	-1,3
Mesures exceptionnelles et temporaires (3)	-0,9	-0,4
Solde effectif (1 + 2 + 3)	-3,1	-3,9

* Le déficit provisoire de l'année 2019 sera publié par l'Insee à la fin du mois de mars (compte provisoire des administrations publiques pour 2019).

Exposé des motifs

La prévision de solde public pour 2019 est maintenue à -3,1 % du PIB, au même niveau que dans le projet de loi de finances rectificatives pour 2019. Le solde provisoire pour l'année 2019 sera publié par l'Insee fin mars.

La prévision de solde public pour 2020 est revue en forte baisse à -3,9 % du PIB, contre -2,2 % prévu lors de la présentation du PLF pour 2020. Le solde structurel s'élèverait à -2,2 % (inchangé depuis le PLF 2020) et l'ajustement structurel à 0,0 point (comme dans le PLF pour 2020). L'estimation sous-jacente de la croissance a été revue à -1,0 %, contre +1,3 % dans le PLF pour 2020.

L'estimation de croissance potentielle est inchangée par rapport au PLF pour 2020 et à la LPFP 2018-2022. Le coût provisionné au titre des mesures annoncées pour faire face à la crise du Covid-19 a été traité en mesures ponctuelles et temporaires, du fait de leur caractère non pérenne sur le solde public.

Par rapport au PLF 2020, des moins-values seraient enregistrées sur les recettes compte tenu de la dégradation des perspectives de croissance, tandis que la dépense publique serait revue à la hausse du fait de l'augmentation des dépenses conjoncturelles de chômage et des mesures d'urgence prises face à la crise. La norme de dépense pilotable de l'État a notamment été relevée de 7,1 Md€ par rapport à la loi de finances initiale pour 2020, au titre des crédits ouverts pour la mise en place de l'activité partielle (avec également un cofinancement par l'Unedic) et de ceux ouverts pour le fonds d'indemnisation (cofinancement par les collectivités locales). Enfin, a été intégrée une enveloppe de 2 Md€ dans le domaine de la santé, permettant de couvrir les achats de matériel (masques), les indemnités journalières et la reconnaissance de l'engagement des personnels hospitaliers.